

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Desert Haven Enterprises, Inc. ("DHE") 43437 Copeland Circle Lancaster, California Los Angeles County</p> <p>Project Site: 43437 and 43439 Copeland Circle, Lancaster, California</p> <p>Facility Type: Developmental Disability and Mental Retardation</p>	<p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: January 30, 2003</p> <p>Resolution Number: HII-133</p>																														
<p>Use of Loan Proceeds: Loan proceeds will be used to refinance an existing bank loan with an interest rate of 9%. DHE will save approximately \$15,500 per year due to the lower interest rate obtained from the HELP II loan program compared to its current mortgage payments.</p>																															
<p>Type of Issue: HELP II Loan</p> <p>Prior HELP II Borrower: No</p>																															
<p>Financial Overview: DHE's income statement exhibits profitability with positive net income during fiscal 2001 and 2002. DHE's balance sheet remains strong with good liquidity and a strong projected debt service coverage ratio.</p>																															
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																															
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Desert Haven Enterprises, Inc., subject to a final appraised value on the Lancaster property satisfactory to the Authority, final approval of the HealthCAP loan and the standard HELP II loan provisions.</p>																															

STAFF SUMMARY AND RECOMMENDATION
Desert Haven Enterprises, Inc.

January 30, 2003
Resolution Number: HII-133

I. PURPOSE OF FINANCING: DHE seeks to refinance an existing loan on a property located in Lancaster. DHE will lower its cost of debt service payments, thus allowing it to operate in a more efficient manner. This refinancing will result in an annual saving of approximately \$15,500.

***Refinance existing loan on property*\$1,737,000**

Loan proceeds will be used to refinance an existing 9% bank loan for property located at 43437 and 43439 Copeland Circle (administration and program building respectively). This loan was originally obtained to fund the construction of these two buildings. The property located at 43437 was constructed in 1982 for \$1.5 million while the property at 43439 was constructed in 1992 for \$2 million.

The interest rate on the current note is 9.0% and the loan balance is approximately \$1,737,000. The proposed HELP II loan will refinance \$400,000 of the outstanding loan balance. DHE has also submitted a loan application under the Authority's HealthCAP loan program (to be underwritten under by National Cooperative Bank Development Corporation (NCBDC) at approximately 6.25% over 15 years) to refinance the remaining loan balance of approximately \$1,337,000. Refinancing the mortgage shall result in an estimated mortgage payment savings of approximately \$41,750 per year (consisting of \$15,500 for HELP II and \$26,250 for HealthCAP) due to the lower interest rate.

DHE is in the process of having the property appraised and management estimates the current value to be approximately \$3.5 million, leading to a combined loan to value ratio of 49%. The appraised value on the property must be satisfactory to the Authority's loan to value ratio policies, not exceed 95%.

***Financing Costs* 41,000**

Authority fee\$5,000
Title/escrow fees11,000
NCBDC fees25,000

***Total*.....\$1,778,000**

Financing structure:

- 15-year fully amortized loan term in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$97,219.
- Second position lien (Subordinate to NCBDC loan of \$1.3 million) on 43437 and 43439 Copeland Circle, Lancaster, California.
- Corporate gross revenue pledge, second lien position (Subordinate to NCBDC).
- This loan is being secured by collateral with an estimating value of \$3.5 million.
- Maximum combined loan to value (consisting of a HealthCAP loan of approximately \$1.3M and HELP II loan of \$400,000) ratio of 95%. The estimated combined loan to value ratio is 49%.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Desert Haven Enterprises, Inc. Statement of Activities Unrestricted

	Five Months Period Ended	For the Year Ended June 30,		
	November 2002 (Unaudited)	2002	2001	2000
REVENUE AND SUPPORT				
Contributions	\$ 5,885	\$ 75,570	\$ 454,774	\$ 23,091
Grant and contracts	477,408	1,175,700	1,197,748	1,265,580
United Way allocations	11,256	17,395	24,759	24,908
Production and sales	17,316	41,975	46,087	151,866
Other service income	1,146,457	2,314,799	2,389,223	1,847,471
Special events - auction	185,744	195,567	257,678	275,962
Investment and rental income	55,253	134,991	135,525	116,155
Miscellaneous income	7,671	15,133	20,458	16,044
Net assets released from restriction		518	5,767	2,601
Total revenue and support	<u>1,906,990</u>	<u>3,971,648</u>	<u>4,532,019</u>	<u>3,723,678</u>
EXPENSES				
Salaries and benefits	1,260,378	2,767,015	2,808,650	2,235,502
Materials	78,073	155,748	204,199	218,346
Service agencies	77,040	117,803	143,607	154,130
Supplies	43,117	70,853	61,293	59,402
Travel	32,082	84,892	103,987	106,551
Occupancy	120,887	257,209	233,371	243,451
Communications	15,228	29,200	55,658	59,034
Interest expense	72,870	176,052	179,827	177,828
Other	55,744	66,134	107,646	376,875
Depreciation	51,596	123,830	123,181	110,808
Total expenses	<u>1,807,015</u>	<u>3,848,736</u>	<u>4,021,419</u>	<u>3,741,927</u>
Increase in net assets	99,975	122,912	510,600	(18,249)
Unrestricted net assets, beginning of period	<u>1,481,650</u>	<u>1,358,738</u>	<u>848,138</u>	<u>866,387</u>
Unrestricted net assets, end of period	<u><u>\$ 1,581,625</u></u>	<u><u>\$ 1,481,650</u></u>	<u><u>\$ 1,358,738</u></u>	<u><u>\$ 848,138</u></u>

Desert Haven Enterprises, Inc.
Balance Sheet

	As of	As of June 30,		
	November 30,	2002	2001	2000
	2002			
	(Unaudited)			
ASSETS				
Cash	\$ 656,338	\$ 1,079,051	\$ 1,061,702	\$ 252,298
Grants and contracts receivable	862,937	472,405	390,422	621,179
Donations - restricted	-	4,500	-	-
Prepaid expenses	24,362	32,695	-	806
Inventory	30,655	22,579	19,901	23,284
Property and equipment, net	2,350,430	2,271,909	2,205,991	2,218,281
Total Assets	\$ 3,924,722	\$ 3,883,139	\$ 3,678,016	\$ 3,115,848
 LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 244,712	\$ 269,219	\$ 206,713	\$ 114,508
Notes payable, current portion	97,385	98,335	88,563	78,136
Accrued wages and payroll taxes payable	69,283	59,559	58,942	109,205
Compensated absences	53,495	53,495	50,680	49,797
Deposits	-	-	-	7,970
Notes payable	1,850,314	1,888,473	1,886,733	1,880,650
Total liabilities	2,315,189	2,369,081	2,291,631	2,240,266
 Net assets				
Unrestricted	1,581,625	1,481,650	1,358,738	848,138
Temporarily restricted	27,908	32,408	27,647	27,444
Total net assets	1,609,533	1,514,058	1,386,385	875,582
Total liabilities and net assets	\$ 3,924,722	\$ 3,883,139	\$ 3,678,016	\$ 3,115,848

Financial Ratios:

	Proforma (1)			
	FYE 2002			
Debt Service Coverage (x)	2.25	1.63	3.03	1.06
Debt/Unrestricted Net Assets (x)	1.27	1.27	1.39	2.22
Margin (%)		3.09%	11.27%	(.49%)
Current Ratio (x)		3.35	3.64	2.50

(1) Recalculates June 2002 audited results to include the impact of this financing.

Financial Discussion:

DHE's income statement exhibits profitability with positive net income during fiscal 2001 and 2002.

DHE's income statement exhibits profitability in fiscal 2001 and 2002. Operating margins are also solid. DHE's primary funding source is "service income" which consists of a service contract in the amount of \$1.6 million annually with Edwards Air Force Base for grounds maintenance. In addition DHE has a packaging/assemble contract with various vendors (approximately \$400,000) and a contract with High Desert Hospital (grounds maintenance). The contract with Edwards Air Force Base has provided DHE with a stable revenue source since 1972, when it was originated. The various other contracts have also provided DHE with a long-term consistent revenue base. Remaining revenues are mainly generated from contracted services with the State Department of Rehabilitation and Habilitation for service fees related to enrollment of individuals with developmental disabilities.

DHE's balance sheet remains strong with good liquidity and a strong projected debt service coverage ratio.

DHE's balance sheet is solid with good liquidity and significant net assets. DHE's strong liquidity is exhibited by its \$1 million cash position. DHE's net assets continue to grow and its debt-to-unrestricted net assets ratio is fairly leveraged at 1.27x, however the current debt service coverage is a solid 1.63x and with the proposed HELP II loan and HealthCAP loan refinancing it will improve to 2.25x. This indicates that DHE will comfortably be able to meet future debt service payments.

Accounts receivables have increased in the November 2002 interim financial statements because the contract with Edwards Air Force Base re-news every October and management indicated that the collection of receivables are slow for a short period immediately following the contract renewal date. This resulted in a corresponding decline in DHE's cash position.

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III. UTILIZATION STATISTICS:

Desert Haven Enterprises, Inc.
Clients Served

<u>Type of Service</u>	<u>As of Nov.</u>		<u>As of June 30,</u>	
	<u>30</u> <u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Initial evaluation	45*	66	63	60
Work services	182	181	186	173
Food services	10	13	13	14
Housekeeping	9	10	9	10
Clerical skills	1	0	2	3
Off-site habilitation crews	51	35	16	12
Individual placement	141	139	147	116
Work crews	45	46	56	48
Totals	484	490	492	436

* The actual number of individuals who have completed initial evaluations for the 5 month period.

IV. ORGANIZATION:

Background: DHE was founded in 1954 when Luella and Jack Henstra advertised in a local newspaper for a playmate for their son who had developed brain damage and mental retardation after having contracted meningitis. As a result of that ad, a small group of parents met in Henstra’s home and initiated in-home, preschool classes for their children to ease the transition into public school.

In 1957, the preschool expanded to full-time separate facilities and by 1966 social and vocational training programs for adults with developmental disabilities were added. Subsequent years saw additional expansion of programs and services to include employment skills training in the areas of food service, housekeeping, clerical skills, and off-site habilitation crews as well as job development and supported employment services. The facilities also expanded to a 25,000 square foot Desert Haven Center which includes a 14,000 square foot workshop, a 16,000 square foot program and administrative center and a 4,000 square foot storage facility all of which are conveniently located in the Lancaster Business Park.

DHE’s mission is dedicated to the developing, enhancing and promoting the capabilities of persons with mental retardation and other developmental disabilities. The primary objective of the agency is to enable persons to overcome barriers to employment through vocational training, job placement, community based employment and supportive service; thereby maximizing their potential to become independent, self-supporting members of their community.

Licenses: DHE is certified by the State Department of Rehabilitation.

Competition:

Health Facility Location	Number of Clients	Market Share (%)	Estimated Distance Away
Antelope Valley Foundation for the Developmentally Disabled	93	10%	1 mile
Easter Seals	80	8%	10 miles
Social Vocational Services	83	19%	8 miles
Work Training Program	33	3%	10 miles
Desert Haven Enterprises, Inc.	490	60%	N/A

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/02*	Estimated Amount Outstanding After Proposed Financing
Existing:			
Loan payable Antelope Valley Bank, 2000	\$41,000	\$20,773	\$20,733
Mortgage payable, 1992 Midland Loan Services, Inc.	2,300,000	1,686,414	1,286,414**
Mortgage Payable Community Development Commission of the County of Los Angeles, 2001	190,000	181,286	181,286
Proposed:			
CHFFA HELP II Loan, 2003		N/A	400,000
TOTAL DEBT		\$1,888,473	\$1,888,473

*Amount Outstanding as of 6/30/02 does not include current portion of long-term debt.

**Balance to be refinanced through the HealthCAP program is approximately \$1,337,000, which includes the current portion of long-term debt.

VI. SECTION 15438.5 OF THE ACT:

Annual savings of approximately \$15,500 per year resulting from the refinancing of this proposed financing will contribute to DHE's long-term viability and enhance the quality of existing services.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Desert Haven Enterprises, Inc., subject to a final appraised value on the Lancaster property satisfactory to the Authority, final approval of the HealthCAP loan, and the standard HELP II loan provisions.